

Emnambithi / Ladysmith Municipality



**Annual Financial Statements
30 June 2013**

Emnambithi / Ladysmith Municipality

Annual Financial Statements for the year ended 30 June 2013

General Information

| | |
|-----------------------------------|--|
| Legal form of entity | Local Municipality |
| Members of the Council | |
| Mayor | Mr M V Madlala |
| Deputy Mayor | Ms S R Mfusi |
| Speaker | Ms Z B Rasool |
| Chief Whip | Mr T W Ngubane |
| Member of the Executive Committee | Ms T Hadebe |
| | Mr P J Hurter |
| | Mr T P Makhaza |
| | Mr M J Buthelezi |
| | Ms M N Mlotshwa |
| | Mr T Msomi |
| | Mr S J Sithebe |
| Accounting Officer | Mr M P Khathide |
| Chief Financial Officer | Mr R A Jhetam (Acting) |
| Grading of local authority | 4 |
| Registered office | 221 Murchison Street Lister Clarence Building Ladysmith Tel: 036-6372231 Fax: 036-6311400 <u>E-mail: mm@ladysmith.co.za</u> |
| Postal address | PO Box 29 Ladysmith Kwazulu-Natal 3370 |
| Bankers | ABSA - Public Sector Banking |
| Auditors | Auditor-General |

Emnambithi / Ladysmith Municipality

Annual Financial Statements for the year ended 30 June 2013

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The reports and statements set out below comprise the annual financial statements presented to the councillors :

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Accounting Officer's Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

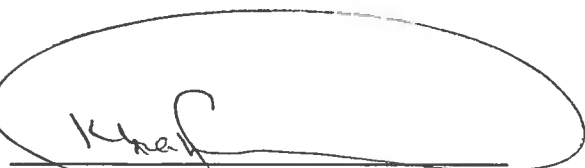
The Accounting Officer has reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Emnambithi / Ladysmith Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 1 to 55, which have been prepared on the going concern basis, were approved by the Accounting Officer on 30 August 2013 and were signed on its behalf by :

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 24 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



Accounting Officer
Mr M P Khathide

30 August 2013

Emnambithi / Ladysmith Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Position

| | | 2013 | 2012 |
|--|---------|----------------------|----------------------|
| | Note(s) | R | Restated R |
| Assets | | | |
| Current Assets | | | |
| Inventories | 15 | 32,296,944 | 13,041,943 |
| Trade and Other Receivables from Exchange Transactions | 16 | 22,366,249 | 20,905,918 |
| Other Receivables from Non-Exchange Transactions | 17 | 36,622,768 | 27,780,732 |
| VAT Receivable | 9 | 14,478,867 | 2,524,923 |
| Current Portion of Non-Current Receivables | 14 | 2,233 | 4,095 |
| Short-Term Investments | 13 | 80,955,967 | 70,739,034 |
| Call Investment Deposits | 18 | 95,301,130 | 117,044,589 |
| | | 282,024,158 | 252,041,235 |
| Non-Current Assets | | | |
| Property, Plant and Equipment | 10 | 803,921,386 | 752,867,276 |
| Intangible Assets | 11 | 242,760 | 158,238 |
| Investment Property | 12 | 63,543,469 | 58,158,103 |
| Non-Current Receivables from Exchange Transactions | 14 | 19,186 | 21,418 |
| | | 867,726,800 | 811,205,036 |
| Total Assets | | 1,149,750,958 | 1,063,246,271 |
| Current Liabilities | | | |
| Consumer Deposits | 4 | 8,045,469 | 7,919,239 |
| Provisions | 5 | 21,460,673 | 19,276,296 |
| Trade and Other Payables from Exchange Transactions | 7 | 71,152,032 | 73,871,403 |
| Unspent Conditional Grants and Receipts | 8 | 35,869,358 | 56,321,412 |
| Cash and Cash Equivalents | 19 | 29,314,433 | 4,616,678 |
| Current Portion of Finance Lease Obligation | 3 | 18,901 | 74,246 |
| Current Portion of Long-term Loans | 2 | 228,970 | 1,410,178 |
| | | 166,089,836 | 163,489,451 |
| Non-Current Liabilities | | | |
| Long-term Loans | 2 | 4,961,135 | 5,190,105 |
| Finance Lease Obligation | 3 | 26,139 | 73,200 |
| Retirement Benefit Obligations | 6 | 34,592,500 | 32,932,000 |
| | | 39,579,775 | 38,195,305 |
| Total Liabilities | | 205,669,611 | 201,684,757 |
| Net Assets | | 944,081,347 | 861,561,514 |
| Net Assets | | | |
| Housing Development Fund | 1 | 26,333,857 | 25,033,273 |
| Accumulated Surplus | | 917,747,490 | 836,528,241 |
| Total Net Assets | | 944,081,347 | 861,561,514 |

Emnambithi / Ladysmith Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Performance

| Actual Restated 2012 | | | Actual 2013 | Approved Budget 2013 | Adjustments 2013 | Final Budget 2013 | Difference between Final Budget and Actual |
|---|--|----|--------------------|----------------------------|---------------------|-------------------------|---|
| R | Note(s) | R | R | R | R | R | R |
| Revenue | | | | | | | |
| Revenue from non-exchange transactions | | | | | | | |
| 99,278,609 | Property Rates | 20 | 112,765,228 | 113,545,733 | - | 113,545,733 | (780,505) |
| 9,171,484 | Property Rates - Penalties & Collection Charges | | 4,106,159 | 10,501,970 | - | 10,501,970 | (6,395,811) |
| 3,386,165 | Fines | | 5,980,091 | 6,463,670 | - | 6,463,670 | (483,579) |
| 6,150,917 | Licences and Permits | | 6,572,089 | 6,484,260 | - | 6,484,260 | 87,829 |
| 148,125,131 | Government Grants and Subsidies | 22 | 194,784,702 | 182,811,000 | 7,065,000 | 189,876,000 | 4,908,702 |
| 9,550,335 | Government Grants - Low Cost Housing | 22 | 11,759,115 | - | - | - | 11,759,115 |
| Revenue from exchange transactions | | | | | | | |
| 208,586,770 | Service Charges | 21 | 232,535,667 | 240,145,674 | (12,157,844) | 227,987,830 | 4,547,837 |
| 7,409,732 | Interest Earned - External Investments | | 8,631,950 | 3,399,300 | 3,600,700 | 7,000,000 | 1,631,950 |
| 628,385 | Interest Earned - Outstanding Receivables | | 882,852 | 1,932,428 | - | 1,932,428 | (1,049,576) |
| 38,703,274 | Other Income | 34 | 26,095,010 | 61,751,090 | (26,583,447) | 35,167,643 | (9,072,633) |
| 530,990,801 | Total Revenue | | 604,112,862 | 627,035,125 | (28,075,591) | 598,959,534 | 5,153,328 |
| Expenditure | | | | | | | |
| 122,725,971 | Employee Related Costs | 23 | 132,108,363 | 135,094,735 | 18,808,126 | 153,902,861 | (21,794,498) |
| 12,164,110 | Remuneration of Councillors | 24 | 13,131,617 | 13,584,699 | - | 13,584,699 | (453,082) |
| 15,324,891 | Bad Debts | | 9,816,435 | 8,666,143 | - | 8,666,143 | 1,150,292 |
| 13,613,089 | Indigency | | 21,008,689 | 19,576,950 | (4,480,000) | 15,096,950 | 5,911,739 |
| 69,066,939 | Depreciation and Amortisation Expense | | 57,656,139 | 95,535,277 | (1,410,178) | 94,125,099 | (36,468,960) |
| 31,968,690 | Repairs and Maintenance | | 36,807,966 | 42,820,443 | (1,804,685) | 41,015,758 | (4,207,792) |
| 681,942 | Finance Costs | 25 | 555,517 | 544,661 | - | 544,661 | 10,856 |
| 141,131,571 | Bulk Purchases | 26 | 154,749,980 | 167,753,000 | (16,065,924) | 151,687,076 | 3,062,904 |
| 4,906,147 | Grants / Subsidies and Rebates Paid | 27 | 1,272,856 | 6,308,000 | 748,048 | 7,056,048 | (5,783,192) |
| 4,913,427 | Grant Expenses | | 9,450,229 | 3,991,000 | 5,192,000 | 9,183,000 | 267,229 |
| 9,550,335 | Grants Expenses - Low Cost Housing | 22 | 11,759,115 | - | - | - | 11,759,115 |
| 88,415,217 | General Expenses | 28 | 101,125,937 | 158,753,983 | (44,814,035) | 113,939,948 | (12,814,011) |
| 514,462,329 | Total Expenditure | | 549,442,842 | 652,628,891 | (43,826,648) | 608,802,243 | (59,359,401) |
| Other Gains / Losses | | | | | | | |
| (3,520,698) | Gain / (Loss) on sale/disposal of assets | | (2,376,407) | - | - | - | - |
| 3,462,188 | Gain / (Loss) on fair value adjustment | | 28,203,866 | - | - | - | - |
| - | Gain / (Loss) on revaluation of assets | | - | - | - | - | - |
| - | Inventories : Write-down to net realisable value | | - | - | - | - | - |
| (88,686) | Impairment Loss / Reversal of impairment loss | | (1,915,495) | - | - | - | - |
| 16,381,277 | Surplus / (Deficit) for the year | | 78,581,983 | (25,593,766) | 15,751,057 | (9,842,709) | 64,512,729 |

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Annual Financial Statements for the year ended 30 June 2013

Statement of Changes in Net Assets

| | Housing Development Fund R | Accumulated Surplus R | Total Net Assets R |
|---|-------------------------------------|-----------------------------|--------------------------|
| Opening balance as previously reported | 20,333,587 | 781,679,913 | 802,013,500 |
| Surplus for the year | - | 8,497,130 | 8,497,130 |
| Correction of Error: Reversal of Interest Raised on Trade Receivables | - | -5,545,050 | -5,545,050 |
| Prior Year Adjustment: Unidentified Bank Deposits up to 30 June 2010 | - | 4,684,294 | 4,684,294 |
| Prior Year Adjustment: Unclaimed Payments to Employees / Creditors | - | 21,249 | 21,249 |
| Prior Year Adjustment: PPE (Movables) - Cost | - | 12,803,552 | 12,803,552 |
| Prior Year Adjustment: PPE (Movables) - Accumulated Depreciation | - | 4,508,584 | 4,508,584 |
| Prior Year Adjustment: Assets Held for Sale Cancelled | - | 1,120,000 | 1,120,000 |
| Prior Year Adjustment: PPE (Infrastructure Assets) | - | 14,361,404 | 14,361,404 |
| Prior Year Adjustment: Long Service Awards | - | -5,948,840 | -5,948,840 |
| Other Transfers to Internal Funds | - | 790,459 | 790,459 |
| Transfer to Self-Insurance Fund | - | 1,519,263 | 1,519,263 |
| Transfer to Housing Operating Account | 2,458,671 | - | 2,458,671 |
| Balance at 1 July 2011 as restated | 22,792,257 | 818,491,959 | 841,284,216 |
| Surplus for the year | - | 16,381,277 | 16,381,277 |
| Prior Year Adjustment: Unidentified Deposits Appropriated | - | 347,892 | 347,892 |
| Prior Year Adjustment: Unclaimed Payments to Employees / Creditors | - | 52,305 | 52,305 |
| Other Transfers to Internal Funds | - | -75,333 | -75,333 |
| Transfer to Self-Insurance Fund | - | 1,330,142 | 1,330,142 |
| Transfer to Housing Development Fund | 2,241,015 | - | 2,241,015 |
| Balance at 1 July 2012 | 25,033,273 | 836,528,241 | 861,561,514 |
| Surplus for the year | - | 78,581,983 | 78,581,983 |
| Prior Year Adjustment: Unclaimed Payments to Employees / Creditors | - | 299,437 | 299,437 |
| Other Transfers to Internal Funds | - | -81,522 | -81,522 |
| Transfer to Self-Insurance Fund | - | 2,419,351 | 2,419,351 |
| Transfer to Housing Development Fund | 1,300,584 | - | 1,300,584 |
| Balance at 30 June 2013 | 26,333,856 | 917,747,490 | 944,081,347 |

Emnambithi / Ladysmith Municipality

Annual Financial Statements for the year ended 30 June 2013

Cash Flow Statement

| | Note(s) | 2013 R | 2012 R |
|---|-----------|----------------------------|---------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Sale of goods and services | | 314,932,304 | 304,639,561 |
| Grants | | 183,428,925 | 168,973,968 |
| Interest received | | 9,514,801 | 8,038,117 |
| Other receipts | | 38,647,189 | 68,585,176 |
| | | <u>546,523,220</u> | <u>550,236,822</u> |
| Payments | | | |
| Employee costs | | -172,579,971 | -153,599,466 |
| Suppliers | | -268,620,209 | -235,227,431 |
| Interest paid | | -555,517 | -681,942 |
| Other payments | | -30,512,549 | -43,927,322 |
| | | <u>-472,268,246</u> | <u>-433,436,161</u> |
| Net cash flows from operating activities | 29 | <u>74,254,974</u> | <u>116,800,661</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | -113,694,463 | -75,899,024 |
| Purchase of investment property | | - | - |
| Purchase of intangible assets | | -352,047 | -19,930 |
| Proceeds on sale of assets | | 5,079,838 | 1,530,446 |
| Net cash flows from investing activities | | <u>-108,966,672</u> | <u>-74,388,508</u> |
| Cash flows from financing activities | | | |
| New loans raised/(repaid) | | -1,410,178 | -1,283,771 |
| Finance lease raised/(repaid) | | -102,406 | - |
| Net cash flows from financing activities | | <u>-1,512,583</u> | <u>-1,283,771</u> |
| Net increase / (decrease) in cash and cash equivalents | | <u>-36,224,281</u> | <u>41,128,382</u> |
| Cash and cash equivalents at the beginning of the year | | | |
| - Short-Term Investments | | 70,739,034 | 53,955,064 |
| - Call Investment Deposits | | 117,044,589 | 82,997,183 |
| - Cash and cash equivalents | | -4,616,678 | 5,086,316 |
| | | <u>183,166,946</u> | <u>142,038,563</u> |
| Cash and cash equivalents at the end of the year | | | |
| - Short-Term Investments | 13 | 80,955,967 | 70,739,034 |
| - Call Investment Deposits | 18 | 95,301,130 | 117,044,589 |
| - Cash and Cash Equivalents | 19 | -29,314,433 | -4,616,678 |
| | | <u>146,942,664</u> | <u>183,166,946</u> |

Accounting Policies

1. BASIS OF PREPARATION

1.1 BASIS OF PRESENTATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost conventions as the basis of measurement, except where specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principle accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

1.2 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.3 GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1 and 24, has been provided in a separate disclosure note and annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.5 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality :

GRAP 18: Segment Reporting – issued March 2005:

Compliance with this standard would have had an effect on the presentation only. Financial information would have been reported by segments. The disclosure of this information will assist users of the financial statements to better understand the entity's past performance and to identify the resources allocated to support the major activities of the entity.

Accounting Policies

GRAP 25: Employee Benefits – issued December 2009:

Compliance with this standard would not have a significant impact on the financial position, financial performance or cash flows of the municipality.

GRAP 26: Impairment of Non-Cash Generating Assets – issued March 2009:

Compliance with this standard would not have a significant impact on the financial position, financial performance or cash flows of the municipality.

2. HOUSING DEVELOPMENT FUND

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

3. INTERNAL RESERVES

3.1 Self insurance reserve

The municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that cannot be insured externally (excess payments). Premiums are charged to the respective services taking into account claims history and replacement values of the insured assets. The balance of the self-insurance fund is ring-fenced within the accumulated surplus/(deficit).

The Council determines annually the amount to contribute to the Self Insurance Reserve.

Claims not fully covered by external insurance are financed from the insurance reserve by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

The municipality operates a self-insurance scheme under the Self-Insurance Reserve, which has a policy that is aligned with the practice in the Insurance Industry. The balance of the Self-Insurance Reserve is determined based on surpluses accumulated since inception.

These surpluses arise from the differences between premiums charged against claims paid and various administrative expenditure incurred.

At the end of each financial year the surplus as computed per above is transferred from accumulated surplus to Self-Insurance Reserve.

The balance of the self-insurance fund is fully cash backed and is invested in a separate call account.

Accounting Policies

4. PROPERTY, PLANT AND EQUIPMENT

4.1 INITIAL RECOGNITION

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost).

If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

4.2 SUBSEQUENT MEASUREMENT – COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

4.3 DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on cost less residual value, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. Land is not depreciated as it is deemed to have an indefinite useful life.

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Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

The annual depreciation rates are based on the following estimated average asset lives:-

| <u>DETAILS</u> | <u>YEARS</u> | <u>DETAILS</u> | <u>YEARS</u> |
|-------------------------|--------------|------------------------------------|--------------|
| Infrastructure | | Other | |
| Roads and Paving | 5 - 100 | Buildings | 10 – 50 |
| Pedestrian Malls | 20 | Specialised Vehicles | 3 – 20 |
| Electricity | 10 – 50 | Other Vehicles | 3 – 20 |
| Water | 10 -100 | Office Equipment | 5 – 7 |
| Sanitation | 10 - 100 | Furniture and Fittings | 10 |
| Housing | 30 | Watercraft | 15 |
| Stormwater | 25 – 120 | Bins and Containers | 5 – 10 |
| Community | | Specialised Plant and Equipment | 5 – 15 |
| Buildings | 10 – 50 | Other Items of Plant and Equipment | 5 – 15 |
| Recreational Facilities | 10 – 100 | Landfill sites | 15 |
| Security | 3 –5 | | |
| | | | |

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

4.4 DERECOGNITION

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4.5 INCOMPLETE CONSTRUCTION WORK

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

5. INVESTMENT PROPERTY

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

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Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

5.1 FAIR VALUE

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

6. INTANGIBLE ASSETS

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.

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- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item | Useful life |
|------------|-------------|
| Servitudes | indefinite |
| Software | 3 years |

7. IMPAIRMENT OF ASSETS

7.1 CASH GENERATING ASSETS

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognized immediately in surplus or deficit.

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An impairment loss is recognized for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- To the assets of the unit, pro-rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortization is recognized immediately in surplus or deficit.

7.2 NON-CASH GENERATING ASSETS

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognized immediately in surplus or deficit.

An impairment loss is recognized for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- To the assets of the unit, pro-rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods.

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A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortization is recognized immediately in surplus or deficit.

8. INVENTORIES

8.1 INITIAL RECOGNITION

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

8.2 SUBSEQUENT MEASUREMENT

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset. In general, the basis of allocating cost to inventory items is the weighted average method.

9. FINANCIAL INSTRUMENTS

9.1 INITIAL RECOGNITION

Financial instruments are initially recognised at fair value.

9.2 SUBSEQUENT MEASUREMENT

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to maturity, loans and receivables, or available for sale.

Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

9.2.1 INVESTMENTS

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that

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categorisation are met, or as loans and receivables, and are measured at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

9.2.2 TRADE AND OTHER RECEIVABLES

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

9.2.3 TRADE PAYABLES AND BORROWINGS

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

9.2.4 CASH AND CASH EQUIVALENTS

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of four months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

10. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

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11. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

12. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

13. PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

14. LEASES

14.1 MUNICIPALITY AS LESSEE

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The

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| | 2013 | 2012 |
|--|------|----------|
| | | Restated |
| | R | R |

17. Other Receivables from Non-Exchange Transactions

| As at 30 June 2013 | Gross Balances | Provision for Bad Debts | Net Balance |
|-----------------------------------|--------------------|-------------------------|-------------------|
| Rates | 79,791,768 | (63,510,662) | 16,281,106 |
| Vat Service Debtors | 5,306,316 | - | 5,306,316 |
| Service Debtors - Conversion Debt | 4,683 | (4,683) | (0) |
| Legal Fees - Debtors | 2,230,764 | (2,201,140) | 29,624 |
| Credit Control Costs - Debtors | 93,282 | (58,050) | 35,232 |
| Sundry Debtors | 19,593,021 | (4,622,532) | 14,970,490 |
| | 107,019,834 | (70,397,066) | 36,622,768 |

As at 30 June 2012

| | | | |
|-----------------------------------|-------------------|---------------------|-------------------|
| Rates | 75,572,384 | (63,674,617) | 11,897,766 |
| Vat Service Debtors | 4,636,135 | - | 4,636,135 |
| Service Debtors - Conversion Debt | 6,320 | (6,320) | - |
| Legal Fees - Debtors | 2,705,303 | (2,672,454) | 32,849 |
| Credit Control Costs - Debtors | 90,565 | (32,657) | 57,908 |
| Sundry Debtors | 14,427,792 | (3,271,717) | 11,156,075 |
| | 97,438,498 | (69,657,766) | 27,780,732 |

Rates : Ageing

| | | |
|-----------------------|-------------------|-------------------|
| Current (0 - 30 days) | 82,484 | 653,720 |
| 31 - 60 Days | 2,806,204 | 2,036,006 |
| 61 - 90 Days | 1,573,507 | 1,168,335 |
| 91 - 120 Days | 1,325,553 | 1,275,358 |
| 121+ Days | 74,004,021 | 70,438,965 |
| | 79,791,768 | 75,572,384 |

Reconciliation of the doubtful debt provision

| | | |
|--|-------------------|-------------------|
| Balance at beginning of the year | 69,657,766 | 58,842,560 |
| Contributions to provision | 4,822,005 | 10,815,206 |
| Additional provision for impairment | - | - |
| Doubtful debts written off against provision | (4,082,704) | - |
| Reversal of provision | - | - |
| | 70,397,066 | 69,657,766 |

Trade and other receivables from non-exchange transactions impaired

As of 30 June 2013, trade and other receivables of R86 595 688 (2012: R 80 901 812) were impaired and provided for. The amount of the provision was R70 397 066 as of 30 June 2013 (2012: R69 657 766). The ageing of these receivables is as follows:

| | | |
|---------------|-------------------|-------------------|
| 31 - 60 Days | 2,235,924 | 1,730,435 |
| 61 - 90 Days | 1,253,737 | 992,988 |
| 91 - 120 Days | 1,056,172 | 1,083,948 |
| 121+ Days | 65,851,234 | 65,850,395 |
| | 70,397,066 | 69,657,766 |

The fair value of trade and other receivables from non-exchange transactions approximates their carrying amounts.

All Debtors with the exclusion of Vat Service Debtors are individually evaluated annually at balance sheet date for impairment. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment, where applicable. Evaluation of impairment includes all debt passed 30 days, and considers past and current payment patterns.

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| | 2013 | 2012 |
|--|-------------------|--------------------|
| | R | Restated R |
| 18. Call Investment Deposits | | |
| The Municipality has the following call investment bank accounts :- | | |
| <u>General Call Account</u> | | |
| ABSA Bank - Public Sector Banking | | |
| Account Number 9207051716 | | |
| Bank statement balance at end of period | 16,898,742 | 20,084,812 |
| <u>Department of Housing Grants Call Account</u> | | |
| ABSA Bank - Public Sector Banking | | |
| Account Number 9207052314 | | |
| Bank statement balance at end of period | 19,654,690 | 40,195,077 |
| <u>Grant Funds Call Account</u> | | |
| ABSA Bank - Public Sector Banking | | |
| Account Number 9207054081 | | |
| Bank statement balance at end of period | 13,985,151 | 24,610,811 |
| <u>Aloe and Berg Tea Call Account</u> | | |
| ABSA Bank - Public Sector Banking | | |
| Account Number 9207054934 | | |
| Bank statement balance at end of period | 173,615 | 210,174 |
| <u>Valuations Call Account</u> | | |
| ABSA Bank - Public Sector Banking | | |
| Account Number 9216278503 | | |
| Bank statement balance at end of period | 11,389 | 10,880 |
| <u>Depreciation Call Account</u> | | |
| ABSA Bank - Public Sector Banking | | |
| Account Number 9216278799 | | |
| Bank statement balance at end of period | 7,860,827 | 7,509,413 |
| <u>Small Town Rehabilitation Grant Call Account</u> | | |
| ABSA Bank - Public Sector Banking | | |
| Account Number 9236394943 | | |
| Bank statement balance at end of period | 2,157,287 | 10,874,131 |
| <u>Ladysmith Black Mambazo Call Account</u> | | |
| ABSA Bank - Public Sector Banking | | |
| Account Number 236410696 | | |
| Bank statement balance at end of period | 1,972,581 | 1,806,312 |
| <u>Self-Insurance Fund Call Account</u> | | |
| ABSA Bank - Public Sector Banking | | |
| Account Number 9251267674 | | |
| Bank statement balance at end of period | 6,389,805 | 4,353,041 |
| <u>Neighbourhood Development Partnership Grant Call Account</u> | | |
| ABSA Bank - Public Sector Banking | | |
| Account Number 9265577031 | | |
| Bank statement balance at end of period | 8,953,544 | 7,389,939 |
| <u>Housing Operating Call Account</u> | | |
| ABSA Bank - Public Sector Banking | | |
| Account Number 9274469611 | | |
| Bank statement balance at end of period | 17,242,498 | - |
| <u>Housing Capacity Fund Call Account</u> | | |
| ABSA Bank - Public Sector Banking | | |
| Account Number 9285122301 | | |
| Bank statement balance at end of period | 1,000 | - |
| | 95,301,130 | 117,044,589 |

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| | 2013 | 2012 |
|--|------|---------------|
| | R | Restated R |

19. Cash and Cash Equivalents

The Municipality has the following bank account :-

Current Account (Primary Bank Account)

ABSA Bank - Public Sector Banking
Account Number 4071756088

| | | |
|---|--------------|-------------|
| Cash book balance at beginning of year | (4,616,678) | 5,086,316 |
| Cash book balance at end of period | (29,314,433) | (4,616,678) |
| Bank statement balance at beginning of year | 12,127,770 | 10,294,546 |
| Bank statement balance at end of period | 13,278,136 | 12,127,770 |

20. Property Rates

Actual

| | | |
|-------------------------------|--------------------|-------------------|
| Residential | 56,279,337 | 50,456,335 |
| Commercial | 35,670,083 | 31,545,533 |
| State | 20,815,808 | 17,276,742 |
| Total Assessment Rates | 112,765,228 | 99,278,609 |

R'000

R'000

Valuations

| | | |
|----------------------------------|------------------|------------------|
| Residential | 6,386,222 | 6,233,230 |
| Commercial | 1,561,674 | 1,712,522 |
| State | 884,690 | 884,690 |
| Total Property Valuations | 8,832,586 | 8,830,442 |

Valuation on land and buildings is performed every five years. The last valuation came into effect on 1 July 2008. Supplementary valuations are processed on a ad-hoc basis to take into account changes in individual property values due to change in use, alterations, consolidations and subdivisions.

The following property allocation factors are applied to the various categories of property to determine assessment rates less the impermissible valuation allowed :

| Category | Rate | Impermissible Valuation |
|--------------------------------|----------|----------------------------|
| Residential Property | R 0.0129 | R 15 000 |
| Industrial/Commercial/Business | R 0.0231 | R 15 000 |
| Agricultural | R 0.0032 | R 15 000 |
| Vacant Land | R 0.0535 | R 0 |
| Game Hunting / Eco-Tourism | R 0.0097 | R 15 000 |
| State | R 0.0238 | R 15 000 |
| Industrial Estate | R 0.0179 | R 15 000 |

Rates are levied on a monthly basis on property owners with the final date of payment being 30 June 2013 (2012: 30 June 2012). Interest at 18% per annum (2012: 18%) is levied on outstanding rates as well as a 10% (2012: 10%) collection charge two months after final date of payment.

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|--|------|----------|
| | | Restated |
| | R | R |

21. Service Charges

| | | |
|---------------------|--------------------|--------------------|
| Sale of electricity | 216,813,018 | 193,945,782 |
| Refuse removal | 15,722,649 | 14,640,988 |
| | 232,535,667 | 208,586,770 |

22. Government Grants and Subsidies

| | | |
|--|--------------------|--------------------|
| Equitable share | 103,921,090 | 93,368,000 |
| Municipal Infrastructure Grant (MIG) | 32,199,649 | 19,218,611 |
| Dept of Housing | 11,759,115 | 9,550,335 |
| Museum Subsidy | 134,000 | 125,000 |
| Financial Management Grant | 1,500,000 | 1,450,000 |
| Municipal Systems Improvement Grant | 800,000 | 790,000 |
| Department of Mineral & Energy (DME) | - | 3,529,940 |
| Integrated National Electricity Programme (INEP) | 10,425,677 | 3,003,158 |
| Neighbourhood Development Programme (NDPG) | 22,444,538 | 15,777,237 |
| Small Town Rehabilitation (STR) | 15,130,272 | 9,966,423 |
| Other Grants | 8,229,475 | 896,761 |
| | 206,543,817 | 157,675,466 |

22.1 Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents and automatic indigents, whose Property Valuation is R 80 000 and less, receive a 100% credit for their Property Rates and their monthly services account.

22.2 Municipal Infrastructure Grant (MIG)

| | | |
|--|-----------------|--------------|
| Balance unspent at beginning of year | - | - |
| Balance overspent at beginning of year (Debtor Raised) | (2,647,920) | (8,785,309) |
| Transfer amount from Other Grants Incorrectly Disclosed | (881,139) | - |
| Current year receipts | 30,758,000 | 25,356,000 |
| Conditions met - transferred to revenue (Other) | (32,199,649) | (19,218,611) |
| Funds not yet received - spending in advance (Debtor Raised) | 4,955,196 | 2,647,920 |
| Conditions still to be met - transferred to liabilities | (15,513) | - |

This grant was used to construct roads and bridges, sportsfields and streetlighting as part of the upgrading of informal settlement areas (included in the votes in Appendix B). No funds have been withheld.

22.3 Department of Housing

| | | |
|---|-------------------|-------------------|
| Balance unspent at beginning of year | 23,211,525 | 27,313,863 |
| Current year receipts | 6,136,766 | 5,447,997 |
| Conditions met - transferred to revenue | (11,759,115) | (9,550,335) |
| Conditions still to be met - transferred to liabilities | 17,589,176 | 23,211,525 |

This grant was used to construct houses as part of the upgrading of informal settlement areas.

22.4 Museum subsidy

| | | |
|---|-----------|-----------|
| Balance unspent at beginning of year | - | - |
| Current year receipts | 134,000 | 125,000 |
| Conditions met - transferred to revenue | (134,000) | (125,000) |
| Conditions still to be met - transferred to liabilities | - | - |

This grant was used to subsidise expenses incurred solely for the museums.

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| | 2013 | 2012 |
|--|------|----------|
| | | Restated |
| | R | R |

22.5 Financial Management Grant (FMG)

| | | |
|---|-------------|-------------|
| Balance unspent at beginning of year | - | - |
| Current year receipts | 1,500,000 | 1,450,000 |
| Conditions met - transferred to revenue | (1,500,000) | (1,450,000) |
| Conditions still to be met - transferred to liabilities | - | - |

This grant was used for Interns' salaries to advance the implementation of the MFMA, training of officials to meet the minimum competency requirements, and Asset Management.

22.6 Municipal Systems Improvement Grant (MSIG)

| | | |
|---|-----------|-----------|
| Balance unspent at beginning of year | - | - |
| Current year receipts | 800,000 | 790,000 |
| Conditions met - transferred to revenue | (800,000) | (790,000) |
| Conditions still to be met - transferred to liabilities | - | - |

This grant was used for systems to comply with the MPRA and Audit Outcomes i.t.o. GRAP.

22.7 Department of Minerals and Energy (DME) Grant

| | | |
|--|----------|-------------|
| Balance unspent at beginning of year | - | 3,483,256 |
| Balance overspent at beginning of year (Debtor Raised) | (46,684) | - |
| Current year receipts | - | - |
| Conditions met - transferred to revenue | - | (3,529,940) |
| Funds not yet received - spending in advance (Debtor Raised) | - | 46,684 |
| Conditions still to be met - transferred to liabilities | (46,684) | - |

This grant was used for electricity connections to households in various areas.

22.8 Integrated National Electricity Programme Grant (INEP)

| | | |
|---|--------------|-------------|
| Balance unspent at beginning of year | 10,472,362 | 5,475,520 |
| Current year receipts | - | 8,000,000 |
| Conditions met - transferred to revenue | (10,425,677) | (3,003,158) |
| Conditions still to be met - transferred to liabilities | 46,684 | 10,472,362 |

This grant was used for electricity connections to households in various areas.

22.9 Neighbourhood Development Partnership Grant (NDPG)

| | | |
|---|--------------|--------------|
| Balance unspent at beginning of year | 7,602,003 | 8,729,241 |
| Current year receipts | 15,000,000 | 14,650,000 |
| Conditions met - transferred to revenue | (22,444,538) | (15,777,237) |
| Conditions still to be met - transferred to liabilities | 157,465 | 7,602,003 |

This grant is used for the upgrading of rural areas in terms of infrastructure development which includes streetlighting, pavements, taxi ranks, bridges, etc.

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| | 2013 | 2012 |
|--|------|----------|
| | | Restated |
| | R | R |

22.10 Small Town Rehabilitation Programme Grant (STRP)

| | | |
|--|--------------|------------------|
| Balance unspent at beginning of year | 7,728,025 | 1,694,449 |
| Current year receipts | 7,000,000 | 16,000,000 |
| Conditions met - transferred to revenue | (15,130,272) | (9,966,423) |
| Funds not yet received - spending in advance (Debtor Raised) | 402,247 | - |
| Conditions still to be met - transferred to liabilities | - | 7,728,025 |

This grant was used for the upgrading of the CBD roads, town beautification, sidewalks, parks and informal trader shelters.

22.11 Other Grants

| | | |
|---|-------------------|------------------|
| Balance unspent at beginning of year | 7,307,496 | 4,417,286 |
| Transfer amount to MIG incorrectly disclosed | 881,139 | - |
| Current year receipts | 18,179,069 | 3,786,971 |
| Conditions met - transferred to revenue (Other) | (8,229,475) | (896,761) |
| Conditions still to be met - transferred to liabilities | 18,138,229 | 7,307,496 |

22.12 Changes in levels of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 1 of 2005), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Emnambithi / Ladysmith Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

| | 2013 | 2012 |
|---|--------------------|--------------------|
| | R | Restated R |
| 23. Employee Related Costs | | |
| Employee related costs - Salaries and Allowances | 95,791,765 | 86,427,028 |
| Employee related costs - Contributions for UIF, pensions, medical aids and group life | 20,374,742 | 18,147,302 |
| Travel allowances | 6,712,532 | 5,914,874 |
| Housing benefits and allowances | 604,253 | 596,691 |
| Overtime & standby payments | 8,312,417 | 8,725,375 |
| Performance bonus | 300,660 | 136,598 |
| Job Creation | 27,351,985 | 21,487,488 |
| Less : Employee costs to Property, Plant and Equipment and other expenses | (27,339,991) | (17,630,101) |
| | 132,108,363 | 123,805,255 |

There were no advances or loans to employees.

Remuneration of Municipal Manager : Mr M P Khathide

| | | |
|---------------------|------------------|----------------|
| Annual Remuneration | 1,067,583 | 412,254 |
| Performance Bonus | - | - |
| | 1,067,583 | 412,254 |

Mr M P Khathide was appointed in the post of Municipal Manager on 1 September 2012, and acted in the post for the period 1 February 2012 to 31 August 2013

Remuneration of Municipal Manager : Mr N J Mdakane

| | | |
|---------------------|---------------|----------------|
| Annual Remuneration | - | 562,448 |
| Performance Bonus | 44,924 | 72,598 |
| | 44,924 | 635,046 |

Mr N J Mdakane resigned on 31 January 2012

Remuneration of the Chief Financial Officer : Mr R A Jhetam (Acting)

| | | |
|---------------------|----------------|----------|
| Annual Remuneration | 543,164 | - |
| Performance Bonus | - | - |
| | 543,164 | - |

Mr R A Jhetam was appointed to act in the post of Chief Financial Officer on 1 December 2012

Remuneration of the Chief Financial Officer : Ms A R Ngwenya

| | | |
|---------------------|----------------|----------------|
| Annual Remuneration | 372,686 | 848,640 |
| Performance Bonus | 110,323 | 64,000 |
| | 483,009 | 912,640 |

Ms A R Ngwenya resigned on 30 November 2012

Remuneration of the Executive Manager: Corporate Services : Mr S N Kunene

| | | |
|---------------------|----------------|----------|
| Annual Remuneration | 283,928 | - |
| Performance Bonus | - | - |
| | 283,928 | - |

Mr S N Kunene was appointed in the post of Executive Manager: Corporate Services on 1 March 2013

Remuneration of the Executive Manager: Corporate Services : Mr H A van Zyl (Acting)

| | | |
|---------------------|----------------|----------------|
| Annual Remuneration | 569,729 | 203,772 |
| Performance Bonus | - | - |
| | 569,729 | 203,772 |

Mr H A van Zyl was appointed to act in the post of Executive Manager: Corporate Services from 1 April 2012 to 28 February 2013

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|--|------|---------------|
| | R | Restated R |

Remuneration of the Executive Manager: Corporate Services : Ms PS Mtaka (Acting)

| | | |
|---------------------|----------|---------------|
| Annual Remuneration | - | 67,573 |
| Performance Bonus | - | - |
| | <u>-</u> | <u>67,573</u> |

Ms P S Mtaka was appointed to act in the post of Executive Manager: Corporate Services from 1 March 2012 to 31 March 2012

Remuneration of the Executive Manager: Governance & Transformation : Mr R G Reddy

| | | |
|---------------------|---------------|----------------|
| Annual Remuneration | - | 545,865 |
| Performance Bonus | 43,577 | 61,619 |
| | <u>43,577</u> | <u>607,484</u> |

Mr R G Reddy's contract ended on 28 February 2012 (This post was since changed to Executive Manager: Corporate Services)

Remuneration of the Executive Manager: Community Services : Mr P B B Simelane

| | | |
|---------------------|----------------|----------|
| Annual Remuneration | 283,928 | - |
| Performance Bonus | - | - |
| | <u>283,928</u> | <u>-</u> |

Mr P B B Simelane was appointed in the post of Executive Manager: Community Services on 1 March 2013

Remuneration of the Executive Manager: Community Services : Mr P S Mkhize (Acting)

| | | |
|---------------------|----------------|----------|
| Annual Remuneration | 526,591 | - |
| Performance Bonus | - | - |
| | <u>526,591</u> | <u>-</u> |

Mr P S Mkhize was appointed to act in the post of Executive Manager: Community Services - 1 August 2012 to 28 February 2013

Remuneration of the Executive Manager: Development, Planning & Human Settlement : Mr P S Mkhize

| | | |
|---------------------|----------------|----------|
| Annual Remuneration | 283,928 | - |
| Performance Bonus | - | - |
| | <u>283,928</u> | <u>-</u> |

Mr P S Mkhize was appointed in the post of Executive Manager: Development, Planning & Human Settlement on 1 March 2013

Remuneration of the Executive Manager: Development, Planning & Human Settlement : Ms P S Mtaka (Acting)

| | | |
|---------------------|----------------|----------|
| Annual Remuneration | 493,532 | - |
| Performance Bonus | - | - |
| | <u>493,532</u> | <u>-</u> |

Ms P S Mtaka was appointed to act in the post of Executive Manager: Economic Development for the period 1 August 2012 to 28 February 2013

Remuneration of the Executive Manager: Infrastructure & Services : Mr A Sompersadh (Acting)

| | | |
|---------------------|----------------|----------|
| Annual Remuneration | 755,419 | - |
| Performance Bonus | - | - |
| | <u>755,419</u> | <u>-</u> |

Mr A Sompersadh was appointed to act in the post of Executive Manager: Infrastructure & Services on 1 September 2012

Remuneration of the Executive Manager: Infrastructure & Services : Mr S Mathew

| | | |
|---------------------|----------------|----------------|
| Annual Remuneration | 150,634 | 850,187 |
| Performance Bonus | 101,837 | - |
| | <u>252,470</u> | <u>850,187</u> |

Mr S Mathew's contract ended on 31 August 2012

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| | 2013 | 2012 |
|--|---------------|---------------|
| | R | Restated R |
| Remuneration of the Chief Operations Officer : Mr S E Hlomuka | | |
| Annual Remuneration | 37,486 | - |
| Other Allowances | 20,909 | - |
| | 58,395 | - |

Mr S E Hlomuka was appointed in the post of Chief Operations Officer on 1 June 2013

24. Remuneration of Councillors

| | | |
|------------------------|-------------------|-------------------|
| Mayor | 680,847 | 652,710 |
| Deputy Mayor | 552,987 | 527,386 |
| Speaker | 550,942 | 525,946 |
| Chief Whip | 519,647 | - |
| EXCO Committee Members | 1,814,100 | 1,642,962 |
| Councillors | 9,013,094 | 8,815,106 |
| | 13,131,617 | 12,164,110 |

In-kind Benefits

The Mayor, Deputy Mayor, Speaker and Chief Whip are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor and Deputy Mayor each have the use of separate Council owned vehicles for official duties.

The Mayor and the Deputy Mayor each have two full-time bodyguards.

25. Finance Costs

| | | |
|---------------------------|----------------|----------------|
| Long-term liabilities | 544,661 | 671,068 |
| Finance Lease Obligations | 5,239 | - |
| Other interest paid | 5,617 | 10,873 |
| | 555,517 | 681,942 |

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Notes to the Annual Financial Statements

| | 2013 | 2012 |
|--|------|---------------|
| | R | Restated R |

26. Bulk Purchases

| | | |
|-------------|--------------------|--------------------|
| Electricity | 154,749,980 | 141,131,571 |
| | 154,749,980 | 141,131,571 |

| <u>Distribution Losses : Electricity</u> | 2013 Kwh | 2012 Kwh | | |
|--|-------------------|-------------------|-------------------|-------------------|
| Value of Purchases at Purchase Price | 253,237,927 | 259,253,693 | 109,806,112 | 106,294,014 |
| Less : Sales at Purchase Price | (226,334,076) | (232,435,814) | (98,140,374) | (95,298,684) |
| Total Losses | 26,903,851 | 26,817,879 | 11,665,738 | 10,995,330 |
| Technical Losses | 12,661,896 | 12,962,685 | 5,490,305 | 5,314,701 |
| Non-Technical Losses | 14,241,955 | 13,855,195 | 6,175,432 | 5,680,630 |
| Total Losses | 26,903,851 | 26,817,880 | 11,665,738 | 10,995,331 |
| Percentage of Total Loss | 10.62% | 10.34% | | |

The value of loss is calculated using the bulk purchase price.

27. Grants / Subsidies and Rebates Paid

| | | |
|-------------------------|------------------|------------------|
| Grants paid to students | 289,600 | 191,394 |
| Grants paid to other | 6,192 | 6,000 |
| Rates Rebates | 977,064 | 4,708,753 |
| | 1,272,856 | 4,906,147 |

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Notes to the Annual Financial Statements

| | 2013 | 2012 |
|---|--------------------|-------------------|
| | R | Restated R |
| 28. General Expenses | | |
| Included in general expenses are the following: | | |
| Advertising | 1,503,030 | 814,463 |
| Aloe & Berg Tea Project | - | 172,648 |
| Asset Management | 705,464 | 2,677,604 |
| Audit Fees | 2,089,375 | 2,333,755 |
| Bank Charges | 438,132 | 357,894 |
| Bulk Discounts | 437,035 | 358,154 |
| COVID - Workmen's Compensation | 1,220,545 | 963,800 |
| Commercialisation of Agricultural Projects | 458,327 | 215,105 |
| Conferences & Delegations | 1,776,566 | 2,060,288 |
| Connections for KWh Meters | 21,717 | 782,203 |
| Consultants | 5,308,738 | - |
| Co-operative Development | 46,334 | 82,538 |
| Development Plans | 175,259 | 735,338 |
| Disconnections & Reconnections | 1,678,058 | 455,678 |
| Electricity | 3,384,012 | 2,620,154 |
| Electricity - Streetlighting | 1,250,570 | 1,495,532 |
| Emergency Relief Fund | 2,198,130 | 822,784 |
| Entertainment Expenses | 174,051 | 113,199 |
| Events / Programmes | 2,086,531 | 2,339,804 |
| Free Basic Alternative Energy | 909,954 | 908,078 |
| Insurance | 3,138,242 | 2,481,735 |
| Leave Provision | 5,023,170 | 3,320,718 |
| Legal Expenses | 425,060 | 604,779 |
| Licence Fees | 408,621 | 240,710 |
| Local Economic Development | 420,672 | 369,486 |
| Long Service Awards Provision | 2,064,136 | 1,298,001 |
| Materials & Sundries | 987,788 | 628,764 |
| Pauper Burials | 87,217 | 101,000 |
| Performance Management | 41,500 | 103,749 |
| Post Retirement Medical Aid Provision | 3,402,706 | 4,033,432 |
| Postage | 985,357 | 924,843 |
| Printing & Stationery | 1,874,255 | 1,560,401 |
| Project Development | 325,978 | 337,019 |
| Protective Clothing | 846,326 | 818,509 |
| Public Meetings | 209,496 | 213,584 |
| Rates | 264,559 | 231,343 |
| Refurbishment - NER Requirements | 9,661,068 | 353,018 |
| Rent - Buildings / Offices | 93,686 | 147,600 |
| SARS - Skills Development Levy | 1,540,408 | 1,346,385 |
| Security Services | 3,637,742 | 2,680,454 |
| Siyazenzela Project | 2,583,734 | 2,268,434 |
| Software Database | 679,025 | 535,000 |
| Sport & Recreation | 925,021 | 1,127,179 |
| Subscriptions & Membership | 1,405,448 | 806,425 |
| Swimming Pool Costs | 216,468 | 488,587 |
| Tampered Meters | 68,645 | 104,529 |
| Telephone / Cellphone Cost | 3,316,274 | 3,090,834 |
| Third Party Payments | 462,190 | 430,419 |
| Trade Mission | 7,766 | 102,652 |
| Training Staff | 1,658,537 | 1,083,055 |
| Valuation Costs | 4,120,152 | 314,093 |
| Vehicle / Transport Costs | 12,923,800 | 25,622,891 |
| Ward Committees | 1,891,406 | 551,857 |
| Water / Sanitation | 1,094,121 | 1,205,849 |
| Youth Development Programme | 193,263 | 529,636 |
| Zibambele EPW Pilot Project | 990,153 | 799,448 |
| Other | 7,290,124 | 7,249,783 |
| | 101,125,937 | 88,415,217 |

Emnambithi / Ladysmith Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

| | 2013 | 2012 |
|--|--------------------|--------------------|
| | R | Restated R |
| 29. Cash Generated By Operations | | |
| Surplus/(Deficit) for the year | 78,581,983 | 16,381,277 |
| Adjustment for:- | | |
| Adjustments in Respect of Previous Years & Appropriations | 2,777,923 | 14,299,583 |
| Depreciation / Amortisation | 57,656,139 | 69,066,939 |
| Loss on disposal of assets | (2,376,407) | (3,520,698) |
| Contribution to doubtful debt provision | 9,816,435 | 8,666,143 |
| Contribution to long service awards provision | 2,064,136 | 1,298,001 |
| Contribution to landfill site rehabilitation | 825,826 | 7,460,039 |
| Contribution to retirement benefit obligation | 1,660,500 | (4,756,249) |
| Gain on fair value adjustment and impairment | (26,288,371) | (3,373,502) |
| Operating surplus before working capital changes: | 124,718,164 | 105,521,533 |
| (Increase)/decrease in inventories | (19,255,000) | (1,116,962) |
| (Increase)/decrease in exchange debtors | (11,276,766) | (13,634,503) |
| (Increase)/decrease in non-exchange debtors | (8,842,036) | 11,586,818 |
| (Increase)/decrease in non-current receivables | 1,862 | 14,879 |
| (Decrease)/increase in unspent conditional grants and receipts | (20,452,053) | 5,207,797 |
| (Decrease)/increase in creditors | (2,719,370) | 10,568,172 |
| (Decrease)/increase in deposits | 126,230 | 454,286 |
| (Increase)/decrease in VAT Receivable | 11,953,944 | (1,801,360) |
| | 74,254,974 | 116,800,661 |

Notes to the Annual Financial Statements

| | 2013 | 2012 |
|--|------|---------------|
| | R | Restated R |

30. Correction of Error

During the year the Municipality conducted a verification and condition assessment on Property, Plant and Equipment, Investment Property, and Inventory - Held For Sale. During this exercise the municipality found assets that were not on the current register or had been captured incorrectly.

Long service awards were recognised due to the materiality, and the valuation was conducted by actuarial consultants.

The Municipality rectified this retrospectively.

The cumulative effect on the 2012 Opening Balances are as follows :

Statement of Financial Position

| | |
|----------------------------------|--------------|
| PPE - Infrastructure Assets | (14,361,404) |
| PPE - Other Assets | (17,312,136) |
| Inventory - Held For Sale Assets | (1,120,000) |
| Provisions | 5,948,840 |
| Accumulated Surplus | 26,844,701 |

The cumulative effect on the comparative amounts for 2012 are as follows :

Statement of Financial Position

| | |
|---------------------|--------------|
| PPE - Other Assets | (10,224,492) |
| Investment Property | (1,222,103) |
| Provisions | (218,717) |

Statement of Financial Performance

| | |
|------------------------|-------------|
| Depreciation | 10,224,492 |
| General Expenses | 1,298,001 |
| Employee Related Costs | (1,079,284) |
| Other Income | 1,222,103 |

31. Unauthorised, Irregular, Fruitless and Wasteful Expenditure

31.1 Unauthorised Expenditure

| | | |
|---|---|--------------|
| Opening balance | - | 18,623,733 |
| Unauthorised expenditure current year | - | - |
| Approved by council or condoned | - | (18,623,733) |
| Transfer to receivables for recovery - not condoned | - | - |
| Unauthorised expenditure awaiting authorisation | - | - |

Unauthorised expenditure is related to the actual expenditure exceeding budgeted expenditure on the Statement of Financial Performance.

31.2 Irregular Expenditure

| | | |
|---|------------------|-------------------|
| Opening balance | 11,888,759 | 286,651 |
| Irregular expenditure current year | 26,437,841 | 18,449,191 |
| Approved / Condoned | (30,603,705) | (6,847,083) |
| Transfer to receivables for recovery - not condoned | - | - |
| Irregular expenditure awaiting authorisation | <u>7,722,895</u> | <u>11,888,759</u> |

Irregular expenditure is related to the non-adherence of Supply Chain Management procedures.

| | | |
|--|------------------|-------------------|
| - Non-compliance with the PPPFA Regulation | 3,465,381 | 11,704,497 |
| - Persons in the service of the state | 28,050 | 184,262 |
| - Non-compliance with the SCM Regulations | 4,229,464 | - |
| | <u>7,722,895</u> | <u>11,888,759</u> |

The amount of R 7 722 895 for irregular expenditure was submitted to Council in July 2013.

Notes to the Annual Financial Statements

| | 2013 | 2012 |
|---|---------------|----------------|
| | R | Restated R |
| 31.3 Fruitless and Wasteful Expenditure | | |
| Opening balance | 118,153 | 107,280 |
| Fruitless and Wasteful expenditure current year | 19,938 | 10,873 |
| Approved by council or condoned | (48,616) | - |
| Transfer to receivables for recovery - not condoned | - | - |
| Fruitless and Wasteful expenditure awaiting authorisation | 89,475 | 118,153 |

Fruitless and Wasteful expenditure is related to expenditure that was made in vain and would have been avoided had reasonable care been exercised.

32. Additional Disclosures in Terms of Municipal Finance Management Act

32.1 Contributions to organised local government

| | | |
|---|-------------|-----------|
| Opening balance | - | - |
| Council subscriptions | 1,388,248 | 804,425 |
| Amount paid - current year | (1,388,248) | (804,425) |
| Amount paid - previous years | - | - |
| Balance unpaid (included in creditors) | - | - |

32.2 Audit Fees

| | | |
|---|-------------|-------------|
| Opening balance | - | - |
| Current year audit fee | 2,543,143 | 2,534,771 |
| Amount paid - current year | (2,543,143) | (2,534,771) |
| Amount paid - previous years | - | - |
| Balance unpaid (included in creditors) | - | - |

32.3 VAT

All VAT returns have been submitted by the due date throughout the year.

32.4 PAYE, SDL and UIF

| | | |
|---|--------------|--------------|
| Opening balance | - | - |
| Current year payroll deductions | 19,127,147 | 17,700,755 |
| Amount paid - current year | (19,127,147) | (17,700,755) |
| Amount paid - previous years | - | - |
| Balance unpaid (included in creditors) | - | - |

32.5 Pension and Medical Aid Deductions

| | | |
|---|--------------|--------------|
| Opening balance | - | - |
| Current year payroll deductions and Council Contributions | 29,860,233 | 26,857,120 |
| Amount paid - current year | (29,860,233) | (26,857,120) |
| Amount paid - previous years | - | - |
| Balance unpaid (included in creditors) | - | - |

Notes to the Annual Financial Statements

| | 2013 | 2012 |
|--|------|---------------|
| | R | Restated R |

33. Capital Commitments

33.1 Commitments in respect of capital expenditure:

| | | |
|---------------------------------------|--------------------|-------------------|
| - Approved but not yet contracted for | | |
| Infrastructure | - | 27,591,000 |
| Community | - | 2,000,000 |
| Other | 11,198,944 | 12,400,000 |
| - Approved and contracted for | | |
| Infrastructure | 66,111,326 | 21,156,002 |
| Community | 17,960,318 | 30,142,479 |
| Other | 7,179,411 | 6,024,867 |
| | 102,450,000 | 99,314,347 |

This expenditure will be financed from:

| | | |
|---------------------|--------------------|-------------------|
| - External Loans | - | - |
| - Government Grants | 37,900,000 | 57,049,000 |
| - Own Resources | 64,550,000 | 42,265,347 |
| | 102,450,000 | 99,314,347 |

33.2 Operating leases

At the reporting date, outstanding commitments under operating leases fall due as follows:

Operating leases - as lessee

| | | |
|---------------------------------------|----------------|----------------|
| Within one year | 178,103 | 144,000 |
| In the second to fifth year inclusive | - | - |
| After five years | - | - |
| | 178,103 | 144,000 |

Operating Leases consists of the following:

Operating lease payments represent rentals payable by the municipality for certain of its office properties.

Leases are negotiated for an average term of five years and rentals have an escalation per annum. No contingent rent is payable.

Operating leases - as lessor

Minimum lease payments due

| | | |
|---------------------------------------|------------------|------------------|
| Within one year | 287,624 | 328,388 |
| In the second to fifth year inclusive | 1,281,627 | 1,480,677 |
| After five years | 611,981 | 553,704 |
| | 2,181,232 | 2,362,768 |

Operating Leases consists of the following:

Certain of the municipality's property is held to provide a service to the community to assist with local economic and social development. Lease agreements are cancellable if agreed by both parties. Most leases have an indefinite term.

Emnambithi / Ladysmith Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

| | 2013 | 2012 |
|---|-------------------|-------------------|
| | R | Restated R |
| 34. Other Income | | |
| Included in other income are the following: | | |
| Actuarial Gain - Post Retirement Benefits | - | 7,168,000 |
| Discounts Received | 223,915 | 135,628 |
| Fees : Brigade Service | 456,955 | 287,997 |
| Fees : Building Plans | 103,439 | 114,390 |
| Fees : Burial | 142,551 | 131,083 |
| Fees : Camping | 49,003 | 55,789 |
| Fees : Hiring | 383,324 | 284,568 |
| Fees : Sewerage Plans | 183,371 | 187,869 |
| Hire : Agra Crescent Hall | 106,133 | 100,439 |
| Hire : Town Hall | 68,416 | 79,969 |
| Legal Fees | (307,163) | 189,453 |
| Notice Processing Cost | 929,044 | 793,307 |
| Rates Clearance Certificates | 157,653 | 189,361 |
| Reconnection Fees : Non Payment | 3,153 | 41,709 |
| Refund Skills Development Levy | 732,969 | 775,165 |
| Rental Income - Housing | 277,045 | 416,523 |
| Rental Income - Sundries | 765,229 | 751,531 |
| Revenue - Third Party Payments | 533,563 | 476,504 |
| Sundries | 935,877 | 734,538 |
| Vehicle Income | 3,903,702 | 20,167,770 |
| Other | 16,446,831 | 5,621,681 |
| | 26,095,010 | 38,703,274 |

35. Self-Insurance Fund

| | | |
|----------------------------|------------------|------------------|
| Opening balance | 4,209,198 | 2,879,056 |
| Contributions / Interest | 3,593,766 | 1,912,326 |
| Insurance Claims processed | (1,174,416) | (582,185) |
| | 6,628,548 | 4,209,198 |

The Municipality has a Self-Insurance Fund to set aside amounts to offset potential losses or claims, which fall under a stop loss determined and calculated by Council's insurance broker based on the insurance risk carried by the Municipality. The funds are kept in a separate call account, and interest earned is credited to the fund.

Notes to the Annual Financial Statements

| | 2013 | 2012 |
|--|------|----------|
| | | Restated |
| | R | R |

36. Retirement Benefit Information**Defined Contribution Plan**

The following are defined contribution plans. These are not treated as defined benefit plans as defined by IAS 19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 par.30 which states that where information required for proper defined benefit plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. This municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail.

Natal Joint Municipal Pension Fund (Superannuation)

The latest interim actuarial valuation of the NJMP Superannuation Fund as at 31 March 2012 disclosed that the Fund's financial position has improved from the previous statutory valuation. The fund disclosed a surplus of R 134,9 million.

The total rate of contribution by the municipality, including the surcharge, is 31,13% (21,63% plus the surcharge of 9,5%) of pensionable salaries payable for a period of 8 years with effect from 1 July 2012.

Natal Joint Municipal Pension Fund (Retirement)

The latest statutory actuarial valuation of the NJMP Retirement Fund (defined benefit) as at 31 March 2012 disclosed a deficit in the fund of R 83,6 million.

The total rate of contribution by the municipality, including the surcharge, is 34,22% (18,37% plus the surcharge of 17,5% less 1,65%) of pensionable salaries payable with effect from 1 July 2012. The repayment period has been extended from 5 - 8 years from 2010.

Natal Joint Municipal Provident Fund

The latest statutory actuarial valuation of the NJMP Provident Fund (defined contribution) as at 31 March 2012 disclosed a deficit in the fund of R 83,5 million.

37. Councillor's Arrear Consumer Accounts

The following Councillor(s) had arrear accounts over 90 days during the financial year as follows:

| | |
|------------|--------|
| B B Biyela | 16,317 |
|------------|--------|

38. Related Parties**38.1 Transactions with Related Parties**

| | |
|-----------------------------------|--------|
| S Mahraj - Chief Internal Auditor | 28,050 |
|-----------------------------------|--------|

The above employee is related to the owner of Maharaj's Driving school, of which the municipality conducted business with during the financial year.

38.2 Key Management Personnel Compensation

Compensation of Key Management Personnel and Councillors is set out in Notes 23 and 24 respectively to the Annual Financial Statements.

Notes to the Annual Financial Statements

| | 2013 | 2012 |
|--|------|----------|
| | | Restated |
| | R | R |

39. Risk Management**Financial Risk Management**

The municipality's activities exposes it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the municipality's financial performance.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash Flow forecasts are prepared and utilised borrowing facilities are monitored.

Interest Rate Risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

Credit guarantee insurance is purchased when deemed appropriate.

Emnambithi / Ladysmith Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

| | 2013 | 2012 |
|--|-------------------|-------------------|
| | R | Restated R |
| 40. Contingent Liabilities | | |
| The Municipality identified the following contingent liabilities: | | |
| 40.1 Claim for Damages | | |
| The municipality is being sued for breach of contract. The municipality is contesting the claim. The amount does not include legal fees. Case No. 424/2011 | 42,294 | 42,294 |
| The municipality is being sued for damages. The municipality is contesting the claim. The amount does not include legal fees. Letter of Demand | - | 18,970 |
| The municipality is being sued for damages. The municipality is contesting the claim. The amount does not include legal fees. Case No. 207/2012 | - | 28,916 |
| The municipality is being sued for damages. The municipality is contesting the claim. The amount does not include legal fees. Case No. 591/2012 | - | 14,576 |
| The municipality is being sued for damages. The municipality is contesting the claim. The amount does not include legal fees. Case No. 173/2012 | - | 100,000 |
| The municipality is being sued for damages. The amount does not include legal fees. The suit relates to the appointment of a service provider for a 3 year period for a Parking Management System in the Ladysmith CBD. The municipality is contesting the claim. Case No. 5386/2012 | 15,820,976 | 15,820,976 |
| The municipality is being sued for a restitution claim alternatively damages for the sale of property. The municipality is contesting the claim. The amount does not include legal fees. Case No. 7241/2011 | - | 313,400 |
| | 15,863,270 | 16,339,132 |

Notes to the Annual Financial Statements

| | 2013 | 2012 |
|--|------|----------|
| | | Restated |
| | R | R |

40.2 Other Claims**Reported for the Financial Year Ending 30 June 2013**

All claims reported in the previous financial year have either been dismissed / withdrawn or settled. There are no other claims against the Municipality as at 30 June 2013.

Reported for the Financial Year Ending 30 June 2012

The municipality has a notice of motion to demolish a water pressure tower structure on a ratepayer's property. The municipality is contesting the motion. The cost is unknown at the reporting date.
Case No. 5728/2009

The municipality is being sued for the release of an impounded bus. The municipality is contesting the suit. The cost is unknown at the reporting date.
Case No. 1200/2011

The municipality is being sued for damages for the disconnection of electricity. The municipality is contesting the claim. The amount is unknown at the reporting date.
Letter of Demand

The municipality has a notice of motion which is being contested in the High Court in Pietermaritzburg for outstanding payment. The amount is unknown at the reporting date.
Case No. 1008/2012

The municipality has been served a notice of eviction. The municipality is contesting the notice. The amount is unknown at the reporting date.
Case No. 1787/2009

The municipality is being sued in the High Court for a valuation of property dispute. The municipality is contesting the suit. The amount is unknown at the reporting date.
Case No. 6047/2011

41. Budget Information

The budget is approved on an accrual basis by nature and vote classification. The approved budget covers the period from 1 July 2012 to 30 June 2013.

The budget and accounting bases are the same, both are on the accrual basis. The financial statements are prepared using a classification on the nature of income and expenses in the statement of financial performance.

Refer to Appendix C for more detail on budget and actual information with an explanation of material differences between the final budget and actual amounts by nature classification.

42. Impairment of Assets**Impairment Losses Recognised**

| | | |
|-------------------------------|------------------|---------------|
| Property, Plant and Equipment | 1,915,495 | 88,686 |
| Intangible Assets | - | - |
| Investment Property | - | - |
| | 1,915,495 | 88,686 |

Impairment losses on property, plant and equipment exist predominantly due to technological obsolescence of information technology equipment. The remainder of impaired items of property, plant and equipment have been physically damaged, stolen or have become redundant and idle.

Notes to the Annual Financial Statements

| | 2013 | 2012 |
|--|------|----------|
| | | Restated |
| | R | R |

43. Change in Estimate

The remaining useful life of the infrastructure and immovable assets were reviewed during the current year.

During the review certain assets had the remaining useful life revised. The effect of this revision has decreased the depreciation charges for the current and future periods.

44. Key Sources of Estimation Uncertainty and Judgements

The following areas involve a significant degree of estimation uncertainty:

| | | |
|--|-------------|-------------|
| Useful lives and residual values of property, plant, and equipment | | |
| Recoverable amounts of property, plant and equipment | 752,867,276 | 721,120,625 |
| Provision for rehabilitation of landfill site (discount rate, no.of years, amount of cash flows) | 13,934,566 | 13,108,739 |
| Present value of post retirement benefit obligation | 34,592,500 | 32,932,000 |
| Present value of long service awards | 7,526,107 | 6,167,557 |
| Provision for doubtful debts | 82,505,567 | 78,798,654 |
| Impairment of assets | 1,915,495 | 88,686 |

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

| | | |
|----------------------|------------|------------|
| Impairment of assets | 1,915,495 | 88,686 |
| Provisions | 96,440,133 | 91,907,393 |

Emnambithi / Ladysmith Municipality
APPENDIX A

SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2013

| EXTERNAL LOANS | | | | Balance at 30 June 2012 R | Received R | Redeemed or Written Off R | Balance at 30 June 2013 R |
|-------------------------------------|---------------|-----------|------------|---------------------------------|---------------|---------------------------------|---------------------------------|
| LONG-TERM LOANS | | | | | | | |
| | Interest Rate | Loan Ref. | Redeemable | | | | |
| Absa Bank - Tsakane Electrification | 9.10% | A1 | Feb 2026 | 5,399,231 | - | 209,126 | 5,190,106 |
| Absa Bank - Surveillance Cameras | 9.33% | A2 | June 2013 | 1,201,052 | - | 1,201,052 | - |
| TOTAL EXTERNAL LOANS | | | | 6,600,283 | - | 1,410,178 | 5,190,106 |

ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2013

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STATEMENT OF BUDGET AND ACTUAL INFORMATION AS AT 30 JUNE 2013

| Description By Nature | Original Budget | Budget Adjustments (i.t.o. s28 & s31 of the MFMA) | Virement (i.t.o. Council Approved Policy) | Final Budget | Actual | % Variance | Explanation of Significant Variances Greater than 10% Actual versus Final Budget |
|--|--------------------|---|---|--------------------|--------------------|------------|---|
| Financial Performance | | | | | | | |
| Property Rates | 113,545,733 | 113,545,733 | - | 113,545,733 | 112,765,228 | 0.69% | The Credit Control Policy was amended to exclude interest charges on Handled Over accounts due to legal fees already being charged |
| Property Rates - Penalties & Collection Charges | 10,501,970 | 10,501,970 | - | 10,501,970 | 4,106,159 | 60.90% | |
| Services Charges | 240,145,674 | 227,987,830 | - | 227,987,830 | 232,535,667 | -1.99% | |
| Interest Earned - External Investments | 3,399,300 | 7,000,000 | - | 7,000,000 | 8,631,950 | -23.31% | The Municipality invested surplus funds at regular intervals to maximise returns. |
| Interest Earned - Outstanding Debtors | 1,932,428 | 1,932,428 | - | 1,932,428 | 882,852 | 54.31% | There was an increase in indigent debtors, resulting in less interest being raised on outstanding balances. |
| Fines | 6,463,670 | 6,463,670 | - | 6,463,670 | 5,980,091 | 7.48% | |
| Licences and Permits | 6,484,260 | 6,484,260 | - | 6,484,260 | 6,572,089 | -1.35% | |
| Transfers and Grants Recognised - Operational | 182,811,000 | 189,876,000 | - | 189,876,000 | 194,784,702 | -2.59% | |
| Transfers and Grants Recognised - Low Cost Housing | - | - | - | - | 11,759,115 | 100.00% | These funds are recognised as revenue from Unspent Grants when expenditure has been incurred. |
| Other Income and Profit on Fair Value Adjustments | 61,751,090 | 35,167,643 | - | 35,167,643 | 54,298,876 | -54.40% | Fair value adjustments for Investment Properties and Assets Held for Sale - Budget is not provided for these items. |
| Total Revenue (Excl. Capital Transfers & Contributions) | 627,035,125 | 598,959,534 | - | 598,959,534 | 632,316,728 | | |
| Employee Related Costs | 135,094,735 | 153,902,861 | - | 153,902,861 | 132,108,363 | 14.16% | During the financial year there were many posts that became vacant resulting in savings for the months in which these posts remained vacant |
| Remuneration of Councillors | 13,584,699 | 13,584,699 | - | 13,584,699 | 13,131,617 | 3.34% | |
| Bad Debts | 8,666,143 | 8,666,143 | - | 8,666,143 | 9,816,435 | -13.27% | There was an increase in the provision for impairment of debtors. |
| Indigency | 19,576,950 | 15,096,950 | - | 15,096,950 | 21,008,689 | -39.16% | There was an increase in indigent debtors, resulting in less interest being raised on outstanding balances, and less rebates paid resulting in savings on rebates |
| Depreciation and Amortisation Expense | 95,535,277 | 94,125,099 | - | 94,125,099 | 57,656,139 | 38.75% | Due to the prior year corrections on PPE, depreciation charges were far less than budgeted for. |
| Repairs and Maintenance | 42,820,443 | 41,015,758 | - | 41,015,758 | 36,807,966 | 10.26% | The Municipality concentrated on storm damaged repairs and maintenance for which the Municipality received grants, thereby under-spending on this item |
| Finance Costs | 544,661 | 544,661 | - | 544,661 | 555,517 | -1.99% | |
| Bulk Purchases | 167,753,000 | 151,687,076 | - | 151,687,076 | 154,749,980 | -2.02% | The savings in rebates is utilised under indigency. |
| Grants / Subsidies and Rebates Paid | 6,308,000 | 7,056,048 | - | 7,056,048 | 1,272,856 | 81.96% | |
| Transfers and Grants | 3,991,000 | 9,183,000 | - | 9,183,000 | 9,450,229 | -2.91% | This item is not required to be budgeted for. |
| Transfers and Grants - Low Cost Housing | - | - | - | - | 11,759,115 | 100.00% | This item is not required to be budgeted for. |
| Impairment Loss | - | - | - | - | 1,915,495 | 100.00% | This item is not required to be budgeted for. |
| Loss on Disposal of PPE | - | - | - | - | 2,376,407 | 100.00% | This item is not required to be budgeted for. |
| Other Expenditure | - | - | - | - | 101,125,937 | 11.25% | The Municipality monitored expenditure in accordance with revenue received and limited spending in this regard. |
| Total Expenditure | 158,753,983 | 113,939,948 | - | 113,939,948 | 101,125,937 | | |
| Surplus/(Deficit) | 652,628,891 | 608,802,243 | - | 608,802,243 | 553,734,744 | | |
| Transfers Recognised - Capital | (25,593,766) | (9,842,709) | - | (9,842,709) | 78,581,983 | | |
| Contributions Recognised - Capital & Contributed Assets | 57,049,000 | 72,800,000 | - | 72,800,000 | 87,548,384 | | |
| Surplus/(Deficit) After Capital Transfers & Contributions | 31,455,234 | 62,957,291 | - | 62,957,291 | 166,130,367 | | |
| Capital Expenditure and Funds Sources | | | | | | | |
| Capital Expenditure | | | | | | | |
| Transfers Recognised - Capital | 57,049,000 | 72,800,000 | - | 72,800,000 | 87,548,384 | -20.26% | Unspent grant from the previous financial year were utilised for PPE |
| Public Contributions and Donations | - | - | - | - | - | - | |
| Borrowing | - | - | - | - | - | - | |
| Internally Generated Funds | 32,600,000 | 40,056,196 | - | 40,056,196 | 25,794,033 | 35.61% | Not all projects were completed at year-end and were carried over to the 2013/2014 FY |
| Total Sources of Capital Funds | 89,649,000 | 112,856,196 | - | 112,856,196 | 113,342,416 | | |

Emnambithi / Ladysmith Municipality

APPENDIX D

DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

| Name of Grants | Name of organ of state or municipal entity | Receipts | Expenditure | Did your municipality comply with the grant conditions in terms of the grant framework in the latest Division of Revenue Act |
|---|--|------------|-------------|--|
| | | 2012/2013 | 2012/2013 | |
| COGTA : Emergency Relief Funds 12/13 | COGTA | 8,486,000 | 329,840 | Yes |
| COGTA : Establishment of Waste Recycling Plant - Income | COGTA | 2,000,000 | - | Yes |
| COGTA : Logistics Hub / Dry Port - Income | COGTA | 4,000,000 | - | Yes |
| COGTA : Purchase of Transnet Properties - Income | COGTA | 2,500,000 | - | Yes |
| COGTA : Mayoral Event | COGTA | 505,000 | 505,000 | Yes |
| Dept Sports & Recreation - Income | Department of Sports & Recreation | 150,000 | 150,000 | Yes |
| Museum Subsidy | Dept of Arts & Culture | 134,000 | 134,000 | Yes |
| Library Cyber Cadet - Income | Dept of Arts & Culture | 100,800 | 100,800 | Yes |
| Library Mobile Unit - Expend | Dept of Arts & Culture | 18,000 | 18,000 | Yes |
| Dept of Housing : Ezakheni - Income | Dept of Housing | 715,240 | 715,240 | Yes |
| Dept of Housing : Steadville Area | Dept of Housing | 1,613,526 | 1,613,526 | Yes |
| DOH - Protocol Agreement - Expend | Dept of Housing | 3,808,000 | 3,808,000 | Yes |
| Municipal Finance Management Grant | National Government | 1,500,000 | 1,500,000 | Yes |
| Expanded Public Works | National Government | 4,110,000 | 4,110,000 | Yes |
| Municipal Infrastructure Grant | National Government | 30,758,000 | | Yes |
| MIG : Community Hall - Ezakheni Ward 3 | National Government | 3,509,190 | 3,509,190 | Yes |
| MIG : Community Hall - Inkunzi | National Government | 3,267,891 | 3,267,891 | Yes |
| MIG : Community Hall - Mthandi | National Government | 3,845,684 | 3,845,684 | Yes |
| MIG : Community Hall Emakhekweni - Expend | National Government | 15,513 | 15,513 | Yes |
| MIG : Community Hall Emcitsheeni | National Government | 623,091 | 623,091 | Yes |
| MIG : Construction of Roads & Stormwater | National Government | 575,277 | 575,277 | Yes |
| MIG : Construction of Steadville Taxi Rank | National Government | 6,483,020 | 6,483,020 | Yes |
| MIG : Design / Build Steel Structures - Expend | National Government | 1,661,402 | 1,661,402 | Yes |
| MIG : Ezakheni Surface Roads & Stormwater | National Government | 34,387 | 34,387 | Yes |
| MIG : Landfill Site Phase | National Government | 506,615 | 506,615 | Yes |
| MIG : Ped Bridge - Ezakheni to Esidakeni | National Government | 168,964 | 168,964 | Yes |
| MIG : Ped Bridge - Watersmeet to Burford | National Government | 2,609,355 | 2,609,355 | Yes |
| MIG : Sports Facilities Ezakheni | National Government | 1,344,795 | 1,344,795 | Yes |
| MIG : Streetlighting All Areas | National Government | 1,636,258 | 1,636,258 | Yes |
| MIG : Streetlighting Mthandi - Expend | National Government | 20,432 | 20,432 | Yes |
| MIG : Streetlighting Roosboom | National Government | 253,046 | 253,046 | Yes |
| MIG : Streetlighting Watersmeet Ward 18 | National Government | 2,590,487 | 2,590,487 | Yes |
| MIG : Upgrade Sportsfield BE 2/2005 | National Government | 1,402,633 | 1,402,633 | Yes |
| Municipal Systems Improvement Grant | National Government | 1,551,509 | 1,551,509 | Yes |
| Neighbourhood Development Partnership Grant | National Government | 5,299 | 5,299 | Yes |
| NDPG - Beautification of Town | National Government | 800,000 | 800,000 | Yes |
| NDPG - Ezakheni Park | National Government | 15,000,000 | | Yes |
| NDPG - Informal Traders Stalls | National Government | 403,682 | 403,682 | Yes |
| NDPG - Link Rd Acaciavale to Ezakheni | National Government | 121,854 | 121,854 | Yes |
| NDPG - Vehicular Bridge Ezakheni | National Government | 503,706 | 503,706 | Yes |
| Small Town Rehabilitation Grant | National Government | 6,092,467 | 6,092,467 | Yes |
| Small Town Rehabilitation - Overhead Bridge | Provincial Government | 15,355,611 | 15,355,611 | Yes |
| Small Town Rehabilitation - Upgrade CBD Sidewalks | Provincial Government | 3,806,774 | 3,806,774 | Yes |
| Small Town Rehabilitation - Upgrade CBD Roads | Provincial Government | 1,755,412 | 1,755,412 | Yes |
| | | 9,568,086 | 9,568,086 | Yes |
| | | 83,198,566 | 83,496,647 | |